

Mr. Francis M. Feltham, President
Fane Management, Inc.
1200 Talisman Drive
North Augusta, South Carolina 29841

Re: AC# 3-AMM-J6 – Feltham Management Company
d/b/a Anne Maria Nursing Home

Dear Mr. Feltham:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1995 through September 30, 1996. That report was used to set the rate covering the contract periods beginning October 1, 1997.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sj

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Mac Carroll

**FELTHAM MANAGEMENT COMPANY
D/B/A ANNE MARIA NURSING HOME**

NORTH AUGUSTA, SOUTH CAROLINA

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1997
AC# 3-AMM-J6**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIODS BEGINNING OCTOBER 1, 1997	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIODS OCTOBER 1, 1997 THROUGH SEPTEMBER 30, 1998	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1996	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	10

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

March 31, 1999

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Felthman Management Company d/b/a Anne Maria Nursing Home, for the contract periods beginning October 1, 1997 and for the twelve month cost report period ended September 30, 1996 as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Felthman Management Company d/b/a Anne Maria Nursing Home, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Felthman Management Company d/b/a Anne Maria Nursing Home dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
March 31, 1999

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

ANNE MARIA NURSING HOME
Computation of Rate Change
For the Contract Periods
Beginning October 1, 1997
AC# 3-AMM-J6

	<u>10/01/97-</u> <u>09/30/98</u>
Interim reimbursement rate (1)	\$84.66
Adjusted reimbursement rate	<u>84.07</u>
Decrease in reimbursement rate	\$ <u><u>.59</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 8, 1998

ANNE MARIA NURSING HOME
Computation of Adjusted Reimbursement Rate
For the Contract Periods October 1, 1997 Through September 30, 1998
AC# 3-AMM-J6

	<u>Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$39.36	\$43.14	
Dietary		8.17	9.01	
Laundry/Housekeeping/Maint.		<u>5.84</u>	<u>7.38</u>	
Subtotal	<u>\$4.17</u>	53.37	59.53	\$53.37
Administration & Med. Rec.	<u>\$.23</u>	<u>8.97</u>	<u>9.20</u>	<u>8.97</u>
Subtotal		62.34	<u>\$68.73</u>	62.34
<u>Costs Not Subject to Standards:</u>				
Utilities		2.60		2.60
Special Services		1.82		1.82
Medical Supplies & Oxy.		3.24		3.24
Taxes and Insurance		1.85		1.85
Legal Fees		<u>.03</u>		<u>.03</u>
TOTAL		<u>\$71.88</u>		71.88
Inflation Factor (4.40%)				3.16
Cost of Capital				6.78
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				.23
Cost Incentive				4.17
Effect of \$1.75 Cap on Cost/Profit Incentives				(2.65)
Minimum Wage Add On				<u>.50</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$84.07</u>

ANNE MARIA NURSING HOME
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1996
AC# 3-AMM-J6

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	Adjusted <u>Totals</u>
General Services	\$1,873,685	\$ -	\$ -	\$1,873,685
Dietary	388,737	-	-	388,737
Laundry	65,019	-	-	65,019
Housekeeping	121,968	742 (5)	785 (6)	121,925
Maintenance	91,069	537 (5)	569 (6)	91,037
Administration & Medical Records	449,457	4,294 (5)	22,824 (2) 4,098 (6)	426,829
Utilities	123,918	730 (5)	774 (6)	123,874
Special Services	86,794	-	-	86,794
Medical Supplies & Oxygen	154,021	-	-	154,021
Taxes & Insurance	92,849	551 (5)	4,589 (4) 561 (6)	88,250
Legal Fees	1,501	12 (5)	15 (6)	1,498
Cost of Capital	334,201	955 (5)	752 (1) 833 (3) 887 (6) <u>9,728 (7)</u>	322,956
	<hr/>	<hr/>	<hr/>	<hr/>
Subtotal	3,783,219	7,821	46,415	3,744,625
Ancillary	84,861	-	-	84,861

ANNE MARIA NURSING HOME
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1996
AC# 3-AMM-J6

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
Non-Allowable	929,455	752 (1) 22,824 (2) 833 (3) 4,589 (4) 7,689 (6) <u>9,728 (7)</u>	7,821 (5)	968,049
	<u> </u>		<u> </u>	<u> </u>
Total Operating Expenses	<u>\$4,797,535</u>	<u>\$54,236</u>	<u>\$54,236</u>	<u>\$4,797,535</u>
TOTAL PATIENT DAYS	<u>47,607</u>	<u>-</u>	<u>-</u>	<u>47,607</u>
TOTAL BEDS	<u>132</u>			

ANNE MARIA NURSING HOME
Adjustment Report
Cost Report Period Ended September 30, 1996
AC# 3-AMM-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 61,314	
	Other Equity	639	
	Nonallowable	752	
	Accumulated Depreciation		\$ 61,953
	Cost of Capital		752
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	22,824	
	Administration		22,824
	To disallow unnecessary working capital interest HIM-15-1, Section 202.2 State Plan, Attachment 4.19D		
3	Other Equity	2,393	
	Nonallowable	833	
	Loan Cost		2,393
	Cost of Capital		833
	The adjust loan cost and related amortization to allowable HIM-15-1, Sections 202.2 and 2304 State Plan, Attachment 4.19D		
4	Nonallowable	4,589	
	Taxes and Insurance		4,589
	To disallow life insurance expense related to nonallowable mortgage HIM-15-1, Sections 202.2 and 2130 State Plan, Attachment 4.19D		

ANNE MARIA NURSING HOME
Adjustment Report
Cost Report Period Ended September 30, 1996
AC# 3-AMM-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Housekeeping	742	
	Maintenance	537	
	Administration	4,294	
	Legal	12	
	Utilities	730	
	Taxes and Insurance	551	
	Cost of Capital	955	
	Nonallowable		7,821
	To reverse DH&HS adjustment to remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
6	Nonallowable	7,689	
	Housekeeping		785
	Maintenance		569
	Administration		4,098
	Legal		15
	Utilities		774
	Taxes and Insurance		561
	Cost of Capital		887
	To remove indirect costs applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

ANNE MARIA NURSING HOME
Adjustment Report
Cost Report Period Ended September 30, 1996
AC# 3-AMM-J6

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Nonallowable Cost of Capital	9,728	9,728
	To adjust capital return to allowable State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$118,582</u>	<u>\$118,582</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

ANNE MARIA NURSING HOME
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1996
AC# 3-AMM-J6

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.1144</u>	<u>2.1144</u>	
Deemed Asset Value (Per Bed)	33,022	33,022	
Number of Beds	<u>121</u>	<u>11</u>	
Deemed Asset Value	3,995,662	363,242	
Improvements Since 1981	502,114	33,842	
Accumulated Depreciation at 9/30/96	<u>(1,341,925)</u>	<u>(64,032)</u>	
Deemed Depreciated Value	3,155,851	333,052	
Market Rate of Return	<u>0.070</u>	<u>0.070</u>	
Total Annual Return	220,910	23,314	
Return Applicable to Non-Reimbursable Cost Centers	(4,200)	(247)	
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>998</u>	<u>51</u>	
Allowable Annual Return	217,708	23,118	
Depreciation Expense	72,124	15,283	
Amortization Expense	3,115	283	
Capital Related Income Offsets	(5,659)	(514)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(2,293)</u>	<u>(209)</u>	<u>Total</u>
Allowable Cost of Capital Expense	284,995	37,961	\$322,956
Total Patient Days (Actual)	<u>43,640</u>	<u>3,967</u>	<u>47,607</u>
Cost of Capital Per Diem	\$ <u>6.53</u>	\$ <u>9.57</u>	\$ <u>6.78</u>

ANNE MARIA NURSING HOME
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1996
AC# 3-AMM-J6

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$3.21	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	<u>\$7.20</u>	<u>\$9.57</u>
Reimbursable Cost of Capital Per Diem		\$6.78
Cost of Capital Per Diem		<u>6.78</u>
Cost of Capital Per Diem Limitation		\$ <u>-</u>